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TREASURY FOR OIA CWINSHIP AND TTYANG

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SUBJECT: CHINA'S ECONOMY: HOPING FOR THE BEST IN THE WEST

Summary and Comment

11. (SBU) SUMMARY: Government officials and businesspeople in Western China's Xinjiang and Ningxia minority autonomous regions do not yet see a large impact from the slowing economy, and although they are concerned, some are also hopeful that their unique development circumstances may provide some protection. Resource-based industries are seeing limited immediate impact so far, and weakening export demand is expected to have less effect given exports' smaller role in local economies. Although details of the Central Government's fiscal stimulus package remain unclear, local officials in Xinjiang hope for an investment-led boost in an economy where infrastructure already plays an important role. END SUMMARY.

12. (SBU) COMMENT: The size of the economies in Xinjiang and Ningxia are relatively small (among China's 31 provincial-level administrative entities, Xinjiang's GDP ranks 25th and Ningxia's 29th). Xinjiang and Ningxia also have few export-oriented businesses and rely heavily on Central Government fiscal transfers and investment associated with China's Great West Development Strategy. Although this provides some cushion from a global economic slowdown, Ningxia and Xinjiang are also large oil, coal, and mineral producers and their poor rural populations rely on outside sources of income that may be threatened by slower economic growth. Although our contacts have not seen a large-scale return of migrant workers to date, the slowing economy's full impact may not be fully apparent until the Chinese New Year holiday in late January when migrant workers return home and may or may not return to jobs elsewhere in China. Increased infrastructure investment itself may boost overall economic growth in Ningxia, Xinjiang, and other inland provinces, but other measures focused on supporting consumption and livelihoods of lower income populations are also important to monitor given the government's increasing concerns about social stability. END COMMENT.

Economic Downturn's Impact: Limited So Far

13. (SBU) Emboffs visited the Ningxia Hui Autonomous Region October 15-17 and the Xinjiang Uighur Autonomous Region November 10-14. Xinjiang officials said there were ongoing government meetings about the

economy and the government's fiscal stimulus package. They provided a generally sanguine picture on the impact of the global and domestic economic downturn. Wang Guoming, Director of the Xinjiang Poverty Alleviation Office, claimed that the Xinjiang economy was not suffering yet and that new construction projects were starting almost weekly and many companies from coastal and central China were still investing in energy and infrastructure projects.

¶4. (SBU) According to Habai Matai, Vice Director of Xinjiang's Foreign Trade and Economic Cooperation Bureau, the broader economic outlook for Xinjiang was largely unchanged and the local impact would be less than other provinces. Habai Matai said that worsening economic circumstances in Central Asian economies such as Kazakhstan were hurting trade, and that many Xinjiang-Central Asian joint venture and construction projects are on hold. But Habai Matai also noted that trade with many Central Asian countries was still small, and that poor business environments, particularly in Tajikistan, limited China's trade and investment in the region. Zhu Zi'an at the Xinjiang Development and Reform Commission (XJDRC) said Xinjiang's trade with the United States, particularly exports, dropped dramatically over the last year. But according to Zhu, Xinjiang firms are generally not internationally oriented and are therefore not as likely to be hurt by a slowdown in the global economy.

¶5. (SBU) In an October 16 meeting with the Ningxia Development and Reform Commission, local government

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economists said RMB appreciation was hurting exports, but that the impact on Ningxia will be small. They also commented that in the long term RMB appreciation will force companies to be more competitive and contribute to rebalancing the economy toward domestic-led, cleaner growth. Ma Zongyu, an economist with the Ningxia Statistical Bureau, was also concerned about the global economy and the impact on exports, but said China, and especially Ningxia, is not yet a completely open economy so the impact may be limited. He said Ningxia in particular is likely to suffer less and he was still confident about overall growth prospects. (Note: In a recent news report, however, officials paint a more difficult picture of Ningxia's economic prospects. End Note.)

¶6. (SBU) According to XJDRC's Zhu, real estate in Xinjiang did not start to boom until about six months ago, and is now probably at its peak. Because the financial sector is less developed in Xinjiang, according to Zhu, speculation has been much less, and prices have only increased 25 percent. Average real estate prices are relatively inexpensive and roughly equivalent to those in Zhengzhou City, Henan and Changsha in Hunan. In Karamay, according to city officials, real estate has been stable; it did not boom and now is not expected to fall. Karamay residents, according to officials, mostly did not buy apartments as speculative investments.

Business Perspectives: Despair, Hope, and Opportunity?

¶7. (SBU) Dr. Liu Gang, Deputy CEO at TBEA, a Xinjiang-based electrical power equipment and cable manufacturer with operations in Liaoning, Sichuan and Shandong, noted growing inventories among his competitors and said the slowdown in the real estate market is hurting demand for TBEA products used for wiring and structural reinforcement. Liu expects the impact of the global and domestic economic slowdown on

TBEA will be delayed. Liu explained that TBEA, unlike textile firms, is not as susceptible to as lower overseas demand. Liu also hopes that government fiscal expenditures on railroads and power generation will help boost business. But he is also concerned that a longer 3-5 year prolonged slowdown is also possible, in which case TBEA would be hurt by reduced demand for power consumption. Liu also said that TBEA's solar power business was seeing a sharp drop in demand from the United States and Europe, although some of the impact is being moderated by long-term contracts.

18. (SBU) Liu claimed that TBEA is not laying off any workers, and is using this period to restructure its workforce by hiring graduates in engineering and technical fields. The company will reduce hiring this year and recruit at fewer, higher quality universities. Liu said he expects to have more choice this year for top students than in the past.

19. (SBU) Emboff also spoke to a computer security software salesperson whose company was expanding its business in Xinjiang. He said the economy does not present a big problem yet for his company because it has a large domestic market share. He explained that as large companies face tighter competition in a tougher economic environment they actually try to expand market share and hire more sales people. But administrative and support staff faced possible job loss if his company moves to cut costs, he added. A small processed food wholesale distribution manager in Urumqi told Emboff that business is very bad and that consumers are not spending, but Emboffs did not hear or see other signs of falling consumption in Urumqi or Karamay.

Rural Migrant Labor: Okay for Now

110. (SBU) Nurmuhannad, Director of the Xinjiang Agriculture Bureau's Foreign Economic Cooperation

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Department, said the Xinjiang government is working to raise rural incomes and address poverty by moving labor (laodongli zhuanyi) out of the agriculture and into service and industry jobs either in towns or cities. Poverty Alleviation Office officials in Xinjiang and Ningxia conduct training programs to prepare rural residents to take advantage of employment opportunities in coastal cities. The Ningxia Poverty Alleviation Office also links graduates of its vocational training programs with prospective employers in coastal cities.

111. (SBU) According to Wang Guoming of the Xinjiang Poverty Alleviation Office, the remittances from migrants workers from Xinjiang working in major coastal urban areas are significant, and add to housing construction and consumption in Xinjiang rural communities. Xinjiang migrant workers, according to Wang, mostly work in restaurants or run small individual businesses selling raisins or other Xinjiang products. Wang surmised that these jobs involve non-discretionary spending that is less likely to suffer from lower demand as the economy slows. Xinjiang Foreign Affairs Office contacts said they had not heard news of migrant workers from Xinjiang losing jobs or returning to the region. In Karamay, according to city officials, most migrant workers are engaged in manual labor and construction work, as well as services and small individual businesses (getihu). They claim that an unemployment wave (shiyechao) is not yet evident.

¶12. (SBU) As part of Ningxia's effort to raise rural incomes, the Region's Labor Bureau also buys train tickets and makes arrangements for rural residents to travel to Xinjiang each fall to pick cotton, according to Ningxia Poverty Alleviation Office officials. Farmers from Ningxia as well as Sichuan, Gansu, Shaanxi and elsewhere earn 3000-4000 RMB for a two week stint per year, and cotton harvest wages are rising due to the dearth of workers. (Note: According to Railway Bureau passenger statistics an estimated 663,000 temporary cotton workers worked in Xinjiang during the 2008 harvest. End Note.)

¶13. (SBU) Despite the current shortage of temporary cotton laborers and increasing wages, a number of contacts said falling cotton demand and mechanization may threaten this source of supplemental rural income in the future. Officials at Xinjiang's Agriculture and Animal Husbandry bureaus worried that the demand for Xinjiang-produced cotton will fall as textile factories close in coastal China as well as other export markets such as Pakistan. They explained that Xinjiang produces one-third of China's cotton, and one-half of Xinjiang farmers' income is from cotton production. They also noted that the impact will likely be greatest in Uighur-dominated Southern Xinjiang, the source of most of Xinjiang's cotton. (Comment: The cotton sector is heavily subsidized. Although demand is slumping, the government is looking to protect the cotton sector by raising the floor price for state cotton procurement and increasing cotton purchases for the national cotton reserve. End Comment.)

¶14. (SBU) According to Wang Gongjun, Brigade Leader of the 136th Construction and Production Corps (CPC, or "bingtuan") Farm near Karamay, over the next few years his brigade will gradually stop using migrant cotton pickers during the harvest season as they increase mechanization. Wang claimed that other CPC cotton farms across Xinjiang are moving in the same direction, but officials at the Xinjiang Construction and Production Corps Development and Reform Commission said that the mechanization process will be gradual and require more time to play out across the region. (Comment: Although the numbers of migrant workers who supplement their income by picking cotton in Xinjiang is small compared to those working in factories, over time this trend could have an impact on rural communities in a number of poor inland provinces. End Comment.)

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Infrastructure: Waiting For the Next Gravy Train

¶15. (SBU) Contacts in Xinjiang highlighted the important role that Central Government infrastructure investment and state-owned enterprises play in the economy, especially given the smaller role of foreign direct investment. In Ningxia, Agricultural and Animal Husbandry Bureau officials also highlighted the importance of Central Government fiscal transfers that Ningxia receives as a minority region. The Ningxia Development and Reform Commission's Yu Dengbo said Ningxia also benefited from the Great West Development Strategy, particularly in the areas of infrastructure, environmental programs, and education. He explained that Central Government fiscal transfers comprise 30 to 40 percent of the Region's government budget.

¶16. (SBU) A number of contacts said they expected the Central Government stimulus package to boost

infrastructure investment further, and also cited rural and social safety net expenditures as a likely target for more funding. Karamay's Vice Mayor Zhao Wusheng said he hoped a number of nearby infrastructure projects planned or under way (e.g., train lines and highway upgrades linking Karamay to cities to the South and North) would get more funding, along with education and other social programs. Zhao also said he thought more funding would go to central and western china development strategies.

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